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CENTRAL INTELLIGENCE AGENCY  
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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE  
SECURITY OF THE UNITED STATES

SUMMARY

1. The CFM meeting, while it reached no basis of compromise with respect to Germany, brought into focus the essential factors that will affect East-West relations for the immediate future. The context of short-term policy will be the now accepted fact of a divided Germany. In this contest, the strength and authority of the new West German state becomes of great importance; as does the capacity of the USSR to play on the theme of German unity. The relation of the West German state to Western Europe is a significant open problem. The situation in Berlin retains its capacity to generate friction. Both the West and the USSR have their freedom of action restrained. The USSR is not able at present to develop a strong political offensive in Germany. The way has not yet been found to reconcile the design of an international Communist dictatorship with strong nationalist sentiments in satellite and fellow-traveling states. Freedom of action is further restricted by unresolved economic difficulties. The West, for its part, has fallen back from the strong position it seemed to have during the CFM meeting. Fundamental economic reverses are taking place and

NOTE: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information contained here is of 15 July 1949.

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seem to threaten the partially rebuilt structure of stability and security in Western Europe. Soviet propaganda, seizing on the theme of the internal disruption of the capitalist world, has begun to exploit this development.

2. A period of uncertainty is anticipated in connection with the position of the Labor Government in the UK. The critical problem of gold reserves is still too technical to have altered the general confidence of the electorate. If the Government has an agreed solution it can probably count on adequate public support. If, however, the Government is split on the issue, considerable political uncertainty is likely to develop.

3. In the Near and Middle East, there is nothing to note except that in Iran economic difficulties and internal political intrigue are complicating the conduct of US-Iranian relations.

4. In the Far East, the growth of internal tensions in Japan is the most significant development, and the possibility of avoiding a sharp Right-Left conflict is becoming difficult. In China, the main issue is now the establishment of political authority and not military action. The situation in Indonesia remains viable. The situation in Indochina remains doubtful.

5. There were no significant developments in Latin America.

6. The development of a non-Communist International Labor Organization in opposition to the WFTU has begun to redress the balance of influence in world labor in favor of the West.